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MANUFACTURERS HANOVER

Financial Digest

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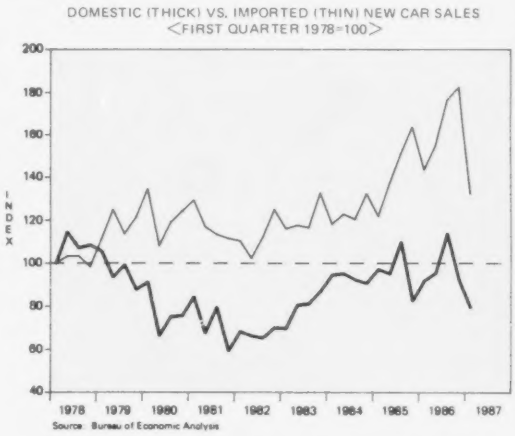
Analysis of Business Trends Plus Selected Financial Indicators

Domestic Auto Sales Downshift . . .

As the current business expansion matures, the domestic automobile industry, one of the driving forces moving the economy, seems to be running out of gas. Domestic market share is falling, sales are sluggish, inventories are rising, and the possibility of a strike by the United Auto Workers (UAW) is looming. Even with the many sales incentives being offered, auto sales remain lackluster. So far this year, domestic auto sales are running 11 percent below the pace set during the same period in 1986 and 15 percent lower than the same period two years ago. Imported car sales are lower as well, with the weaker dollar pushing up import prices, but sales of imports have not fallen as much as domestic car sales. For the January-May 1987 period, imported car sales fell only six percent compared with the same period a year ago.

For 1987 as a whole, domestic car sales will do well to reach seven million units, a decline of 13½ percent from the 8¼ million cars sold during 1986. Imported car sales are expected to fall only four percent during 1987, and a large part of this decline will be in the Japanese car lines. Japanese car prices have risen sharply due to the appreciation of the yen, with some analysts estimating the price hike to be as high as 20 percent over the past 18 months. However, U.S. car producers will not be able to reap all the benefits of higher Japanese and European import prices since such low-priced imports as the highly-successful Korean Hyundai, are filling the gap, buoying foreign sales. Imported cars may well account for 30½ percent of total car sales in the U.S. in 1987, up from 28 percent last year.

Rising interest rates, falling consumer confidence and low personal savings are some of the reasons why the industry expects a lower sales pace in 1987. In addition, despite all the sales incentives, affordability of autos has not improved in recent years. In 1970, the average domestic car sold for $3,430, according to the Commerce Department, accounting for 36.4 percent of median family income. Last year, the average price was $12,450, or 44.9 percent of median family income. Another reason for expecting lower sales is that some buyers already purchased their cars in 1986 to take advantage of the sales tax deductibility which was eliminated by tax reform effective January 1, 1987. This artificially pushed up 1986's sales, thereby lowering 1987's.



. . . As The Business Expansion Matures . . .

Another important factor in the slowing of car sales is the length of the current business expansion. The economy has just completed its 55th month of recovery and is only four months away from recording the longest peacetime expansion on record. Basic demand for automobiles is not as strong as it used to be, since there is little or no pent-up demand waiting to be filled as was the case in the first few years of the ongoing expansion. So for 1987 and beyond, the sales picture remains bleak, and another decline should not be ruled out in 1988.

To maintain profitability in the face of slow sales and an inability to boost prices, the Big Three automakers are relying more on outsourcing and subcontracting of vehicles and components from lower-cost U.S. suppliers and such foreign countries as Mexico and Korea. This shift toward outsourcing will be one of the problems discussed during contract negotiations between automakers and the UAW this summer. The UAW wants stronger curbs on such subcontracting, since it results in job losses for UAW members. The UAW will also be bargaining for guaranteed employment, reduced work time, pension improvements and the restoration of the traditional annual

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wage increases. Industry analysts believe that negotiations will be complicated, since the automakers' main concern will be increased competitiveness, while the UAW's top priority will be job guarantees.

. . . But Imports Are Gaining Ground

Aside from labor problems, the road ahead will continue to be rocky for domestic car producers. According to a lengthy study by the Massachusetts Institute of Technology, excess production capacity in North America today totals more than four million cars a year. The four-year study, which is not completed yet, projects that the share of the new-car market held by U.S.-based automakers will decline to 52 percent by 1990, down from 67 percent in 1986.

The MIT study, however, also states that the future is not all negative. This is because the best of the U.S. car plants are world-class in terms of productivity and quality. However, a great number of existing plants are not efficient. And between the best and the worst plants there is an enormous gap, with the worst ones not being competitive.

One of the consequences of Detroit's continued use of these many inefficient plants is

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/17/87)	165,986	+ 130	+ 9,999
New York City (6/17/87)	36,374	– 290	+ 2,371
Commercial Paper (6/17/87)	359,221	+ 3,537	+ 42,031

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/17/87)	277,600	– 509	+16,149
New York City (6/17/87)	61,573	+ 84	+ 5,322

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/17/87)	799,613	+ 621	+59,303
New York City (6/17/87)	178,295	– 1,568	+19,090

Financial Markets

	Thursday 7/2/87	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.81%	– .11	– .24
180-Day Bills†	6.00	– .38	– .08
Longest Bills†	6.56	– .17	+ .32
Recent Issues:			
8S 5/31/89	7.34	– .17	
7 7/8S 6/30/91	7.80	– .12	
8 1/2S 5/15/97	8.29	– .06	
8 3/4S 5/15/17	8.44	– .04	
Municipals:			
Bond Buyer–20 Bond Index* (7/1/87)	7.81%	+ .09	+ .30
Blue List Total ($ Million)	$1,781	+ $ 65	–$ 93
30-Day Visible Supply ($ Million)	$2,046	– $ 258	–$2,362
Total	$3,827	– $ 193	–$2,455
Corporates:			
Moody's Aa Composite (7/1/87)	9.60%	+ .01	+ .29
30-Day Visible Supply ($ Million)	$4,472	+ $1,738	+$ 747
Stocks:			
Dow-Jones Averages:			
Industrials	2,436.70	– .16	+535.83
Transportation	1,030.43	+ .64	+252.68
Utilities	205.90	– 1.32	+ 5.14
65 Stocks	912.77	– .66	+184.86
N.Y.S.E. Composite Index	171.83	– .84	+ 27.16
N.Y.S.E. Avg. Daily Vol. for Week (000's)	155,176	– 14,870	+19,898

*34% Taxable equivalent 11.83%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Thursday 7/2/87	Week Ago
Overnight	6.50%	6.63%
1 month	6.81	7.06
3 month	6.94	7.13
6 month	7.13	7.25
1 year	7.44	7.63
EURODOLLAR BONDS Average Yield		
Medium Term (5 yrs.)	8.48%	8.31%
Long Term (10 yrs.)	9.08	8.95

FOREIGN EXCHANGE SPOT RATES

New York Opening (7/2/87)	Currency Per U.S. $	Week Ago
Canada	1.3300	1.3310
France	6.0990	6.0925
Germany	1.8286	1.8260
Italy	1324.25	1324.50
Japan	147.05	146.10
Mexico	1365.00	1344.00
Switzerland	1.5185	1.5140
U.K.*	1.6303	1.6131

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (7/2/87) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+0.4%	–1.8%

a widespread belief that there are sizable quality differences between imported and domestically-built cars. Many consumers feel that imports are built better and will therefore last longer than American cars. One of the results of this is illustrated in the chart on page 1. It shows the trend in domestic and foreign car sales since early 1978, the recent peak year for domestic auto sales. In the first quarter of 1987, domestic auto sales stood 20 percent below the level reached in the beginning of 1978. On the other hand, imported car sales stood 32 percent higher than they did in early 1978. Interestingly, this rise in imported car sales has occurred in spite of the fact that prices of imports over the same period (1978 to early 1987) climbed 25 percent *more* than domestic car prices.

The auto industry can look forward to further closings of inefficient plants and more worker layoffs, on the one hand, and continued high levels of capital spending, on the other. Employment has already fallen over 22 percent since early 1978. Further staff reductions are in the cards as domestic automakers try to improve their competitiveness in the face of weaker profits and stronger imported car sales. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 6/24/87	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	223.438	+ 8.278	+33.156
Loans to Depository Inst.	.823	+ .172	+ .039
Float	.799	− .022	+ .028
Total Reserve Bank Credit	240.802	+ 9.036	+33.532
Treasury Deposits with Federal Reserve Banks	14.570	+10.691	+11.142
Currency in Circulation	214.346	− .439	+15.910
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	177.808	− 2.038	+31.849
	6/17/87		
Member Bank Reserves:			
Total Reserves Held	57.995	+ 1.125	+ 8.427
Excess (Deficiency)	.814	− .310	+ .178
Net Free Reserves	.433	+ .106	− .010

Monetary Aggregates †		% Change Since 3 Months Ago*	% Change Since Year Ago
M1 (6/15/87)	744.8	+ 6.2‡	+ 12.9‡
M2 (May '87)	2,839.9	+ 2.7	+ 7.3
M3 (May '87)	3,555.4	+ 4.2	+ 7.3
Domestic Nonfinancial Debt (1st Q'87)	7,805.2	+ 6.4	+ 11.7

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 7/2/87	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	5.69%	5.79%	6.20%
* Federal Agencies	6.53	6.55	6.56
* Municipal Notes—High Grade (34% Taxable Equivalent)	5.45	5.45	5.91
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	6.79	6.94	7.45

‡Finance Company Paper—Prime

5- 14 days	6.40%
15- 29 days	6.60
30- 59 days	6.70
60- 89 days	6.73
90-179 days	6.78
180-239 days	6.70
240-270 days	6.70

‡* Bankers' Acceptances

Aug.	6.65%
Sept.	6.65
Oct.	6.65
Nov.	6.67
Dec.	6.70
Jan.	6.71

‡Industrial Paper—Prime

30- 89 days	6.73%
90-120 days	6.75

†Federal Funds Effective Rate 6.65%

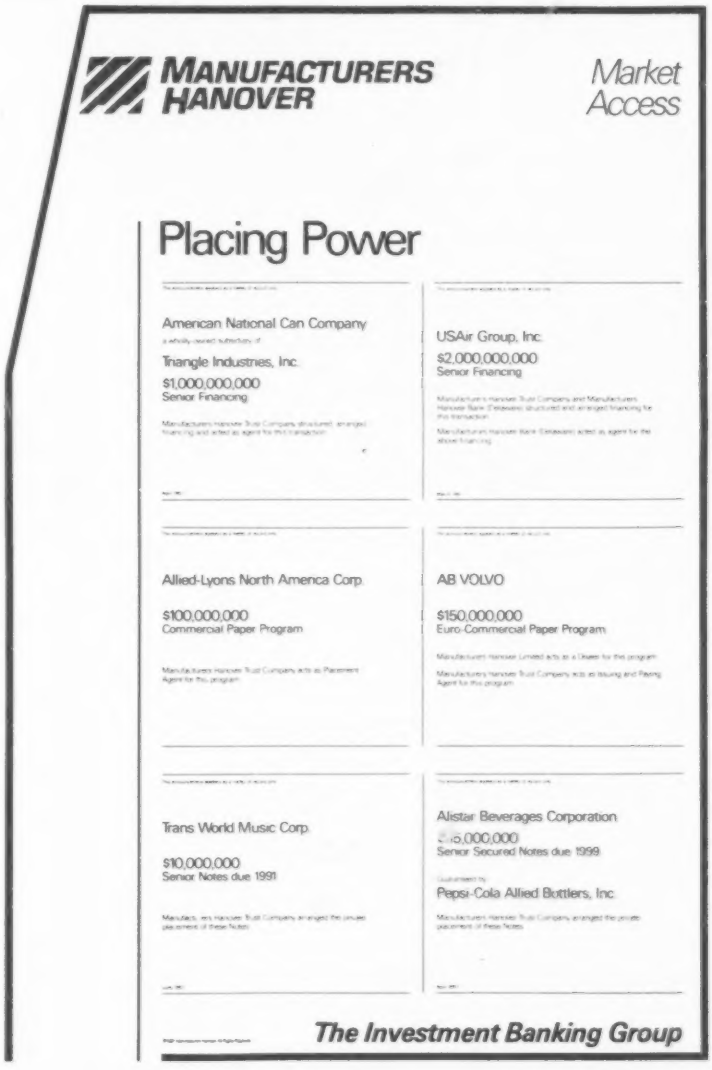
‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'87	$ 4,352	$ 4,259	$ 4,149
Gross National Product (1982 Dollars)*	1st Q'87	$ 3,739	$ 3,696	$ 3,656
Percent Change, Annual Rate	1st Q'87	4.8	1.1	3.8
Change in Consumer Prices*	May '87n	3.6% (1)	4.8% (1)	2.4%
Change in Producer Prices*	May '87	3.6%	8.4%	6.0%
Civilian Employment (Thousands of Persons)†	Jun '87n	112,257	112,447	109,613
Unemployment as % of Civilian Labor Force†	Jun '87n	6.1%	6.3%	7.1%
Personal Income*	May '87	$ 3,630	$ 3,622	$ 3,481
Leading Indicators Composite Index (1967=100)†	May '87n	189.3	187.9r	178.5
Industrial Production Index (1977=100) †	May '87	127.8	127.2	124.2
Net Change in Consumer Installment Credit †	Apr '87	$ 2.93	$ 0.32	$ 5.93
U.S. Merchandise Trade Balance	Apr '87	−$ 13.32	−$ 13.63	−$ 14.28
Plant and Equipment Expenditures*	3rd Q'87	$397.06(a)	$392.02(a)	$374.55
Private Housing Starts (Thousands of Units)*	May '87	1,620	1,665	1,848
New Construction Expenditures*	May '87n	$ 398.6	$ 397.3r	$ 374.5
Total Business Inventories †	Apr '87	$ 664.3	$ 663.0	$ 655.4
Total Business Sales †	Apr '87	$ 443.6	$ 445.0	$ 422.4

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.
(1) Indicates new series.



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